

HARLAN MUNICIPAL UTILITIES

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND RESPONSES

YEARS ENDED JUNE 30, 2020 AND 2019

HARLAN MUNICIPAL UTILITIES

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HARLAN MUNICIPAL UTILITIES
Officials
June 30, 2020

<u>Trustees</u>	<u>Title</u>	<u>Term Expires</u>
Terry Arentson	Chairperson	November, 2021
Connie Wees	Vice Chairperson	November, 2022
David Tyrrel	Board Member	November, 2023
Nella Seivert	Board Member	November, 2024
Randall Rees	Board Member	November, 2025
Kenneth Weber	Chief Executive Officer & Board Secretary	Indefinite
Hall Hudson Fischer PC	Attorneys at Law	Indefinite
Monte Broeckelman Broeckelman & Associates P.C.	Contracted Director of Accounting & Finance	Indefinite

Gronewold, Bell, Kyhnn & Co. P.C.

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KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Harlan Municipal Utilities
Harlan, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of Harlan Municipal Utilities (a component unit of the City of Harlan, Iowa) which comprise the statements of net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Harlan Municipal Utilities

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of Harlan Municipal Utilities as of June 30, 2020 and 2019 and the changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Schedule of the Utilities' Proportionate Share of the Net Pension Liability and the Schedule of Utilities' Contributions on pages 3 through 3e and on pages 39 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harlan Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 30, 2018 (which are not presented herein) and expressed unmodified opinions on those financial statements. Other auditors previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2016 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information on pages 1 and 44 through 55 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Trustees
Harlan Municipal Utilities

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2020 on our consideration of Harlan Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of Harlan Municipal Utilities' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Harlan Municipal Utilities' internal control over financial reporting and compliance.

Gravel, Ben, John & Co., P.C.

Atlantic, Iowa
September 15, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Harlan Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal years ended June 30, 2020, 2019, and 2018. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2020 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities decreased 2.91%, or \$427,634 from fiscal 2019 to fiscal 2020.
- Operating expenses of the Utilities' activities decreased 6.41%, or \$806,254 from fiscal 2019 to fiscal 2020.
- The Utilities' net position increased 5.21%, or \$2,145,208 from June 30, 2019 to June 30, 2020.

2019 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased 0.55%, or \$80,967 from fiscal 2018 to fiscal 2019.
- Operating expenses of the Utilities' activities increased 1.40%, or \$173,725 from fiscal 2018 to fiscal 2019.
- The Utilities' net position increased 4.33%, or \$1,709,207 from June 30, 2018 to June 30, 2019.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

The basic financial statements consist of Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows. These statements provide information about the activities of the Utilities on a comparative basis, including resources held by the Utilities but restricted for specific purposes by creditors, contributors, grantors or enabling legislation.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year, the Utilities' proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the operations of the Utilities.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Utilities' finances is "Are the Utilities as a whole better or worse off as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the Utilities' resources and its activities in a way which helps answer this question. These statements include all assets (restricted and unrestricted), deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utilities' net position, which is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources as one way to measure the Utilities' financial health or financial position. Over time, increases or decreases in the Utilities' net position are one indicator of whether its financial position is improving or deteriorating. Additional factors, such as changes in the Utilities' consumer base, changes in legislation and regulations, measures of the quantity and quality of services provided to its consumers and local economic conditions, are also important in making this determination.

The Statements of Cash Flows

The Statements of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

FINANCIAL ANALYSIS OF THE UTILITIES

As noted earlier, net position may serve over time as a useful indicator of financial position. The Utilities' net position increased approximately \$1,709,200 (4.33%) from fiscal year 2018 to fiscal year 2019 and increased approximately \$2,145,200 (5.21%) from fiscal year 2019 to fiscal year 2020.

Statements of Net Position			
	2020	2019	2018
Current assets	\$ 8,068,296	\$ 7,850,069	\$ 6,643,120
Special purpose funds	7,071,048	7,285,615	9,733,455
Capital assets	41,873,110	41,766,009	39,647,902
Other assets	<u>954,117</u>	<u>305,810</u>	<u>337,135</u>
Total assets	57,966,571	57,207,503	56,361,612
Deferred outflows of resources	423,281	444,393	500,135
Current liabilities	3,104,059	3,819,022	3,286,908
Long-term liabilities	11,662,568	12,476,953	13,952,206
Other liabilities	<u>58,734</u>	<u>51,380</u>	<u>47,090</u>
Total liabilities	14,825,361	16,347,355	17,286,204
Deferred inflows of resources	270,685	155,943	136,152
Net position:			
Net investment in capital assets	30,217,793	28,951,292	26,352,735
Restricted:			
Expendable	4,564,320	4,700,887	6,725,664
Unrestricted	<u>8,511,693</u>	<u>7,496,419</u>	<u>6,360,992</u>
Total net position	<u>\$ 43,293,806</u>	<u>\$ 41,148,598</u>	<u>\$ 39,439,391</u>

Restricted expendable net assets decreased approximately \$136,567 from fiscal year 2019 to fiscal year 2020. Restricted expendable net assets decreased approximately \$2,024,777 from fiscal year 2018 to fiscal year 2019.

Unrestricted net position increased approximately \$1,015,274 from fiscal year 2019 to fiscal year 2020, primarily due to operations and funding capital asset purchases from restricted net position. Unrestricted net position decreased approximately \$1,135,427 from fiscal year 2018 to fiscal year 2019.

The following shows the changes in net position for the Utilities.

Statements of Revenues, Expenses and Changes in Net Position			
	2020	2019	2018
Operating revenues:			
Sales to consumers	\$ 13,071,588	\$ 13,494,251	\$ 13,141,737
Other operating revenues	788,079	219,100	686,725
Other sales - MISO	422,973	996,923	800,845
Total operating revenues	14,282,640	14,710,274	14,629,307
Operating expenses:			
Plant operating	6,192,562	7,065,854	7,037,849
Distribution operation	1,281,984	1,358,846	1,292,008
Transmission operation	320,948	302,919	313,425
Administrative and general	948,426	957,562	967,324
Consumer services	12,102	20,146	14,353
Marketing and stakeholder relations	174,091	189,650	160,849
Employee benefits	1,038,819	917,760	941,475
Depreciation and amortization	1,804,290	1,766,739	1,678,468
Total operating expenses	11,773,222	12,579,476	12,405,751
Operating income	2,509,418	2,130,798	2,223,556
Non-operating revenues:			
Contributions to City - in lieu of taxes	(257,988)	(268,606)	(264,320)
Income from investments	140,206	123,014	85,548
Interest expense on revenue bonds	(211,428)	(240,999)	(338,339)
Industrial development contribution	(35,000)	(35,000)	(35,000)
Non-operating revenues (expenses), net	(364,210)	(421,591)	(552,111)
Net income	2,145,208	1,709,207	1,671,445
Net position, beginning of year	41,148,598	39,439,391	37,767,946
Net position, end of year	\$ 43,293,806	\$ 41,148,598	\$ 39,439,391

Operating Income

The first component of the overall change in the Utilities' net position is its operating income, which is the sum of sales to consumers and other operating revenues reduced by the expenses incurred to perform those services. In each of the past three years, the Utilities has reported an operating income. This is consistent with the Utilities' recent operating history as the Utilities were formed and are operated primarily to serve residents of the City of Harlan and the surrounding area.

The operating income for fiscal year 2020 increased \$378,620, or 17.8%, compared to fiscal year 2019.

Non-operating revenues and expenses consist primarily of contributions to City-in lieu of taxes, interest expense and investment income. Investment income remained relatively constant in fiscal year 2020 as compared to fiscal year 2019. Interest expense decreased \$29,571, or 12.3% primarily due to paying debt down and capitalizing interest.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, noncapital financing, capital and related financing and investing activities. Cash provided by operating activities includes utility charges reduced by payments to employees and to suppliers. Cash used in noncapital financing activities includes contributions to City - in lieu of taxes. Cash used in capital and related financing activities includes note payments and the purchase of capital assets. Cash used by investing activities includes the purchase of investments and interest income.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2020, the Utilities had \$41,873,110 invested in capital assets, net of accumulated depreciation/amortization, as detailed in Note G to the financial statements. In fiscal year 2020, the Utilities acquired or constructed capital assets costing approximately \$1,907,100.

At June 30, 2019, the Utilities had \$41,766,009 invested in capital assets, net of accumulated depreciation/amortization, as detailed in Note G to the financial statements. In fiscal year 2019 the Utilities acquired or constructed capital assets costing approximately \$3,880,300.

Long-Term Debt

At June 30, 2020, the Utilities had outstanding revenue bonds and an equipment note totaling approximately \$11,684,200, as detailed in Notes I-L to the financial statements. During 2020 the Utilities entered into a new intercompany note in Telecommunications Department to refinance existing debt and for capital purchases.

At June 30, 2019, the Utilities had outstanding revenue bonds and an equipment note totaling approximately \$12,407,300, as detailed in Notes I-L to the financial statements. The Utilities issued no new debt in fiscal year 2019.

The Utilities' formal debt issuances, revenue bonds, are subject to limitations imposed by state law. There have been no changes in the Utilities' debt ratings during the past two years.

ECONOMIC FACTORS

Harlan Municipal Utilities continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for Utilities officials. Some of the realities which may potentially become challenges for the Utilities to meet are:

- Natural resource costs will continue to increase.
- Facilities at the Utilities require constant maintenance and upkeep.
- Shortages of qualified employees.

The Utilities anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Utilities' ability to react to unknown issues.

CONTACTING THE UTILITIES'S FINANCIAL MANAGEMENT

This financial report is designed to provide our consumers, suppliers, and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report and or need additional financial information, contact Chief Executive Officer, 2412 Southwest Avenue, Harlan, Iowa 51537-0071.

HARLAN MUNICIPAL UTILITIES
Statements of Net Position
June 30, 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>
Capital Assets - net of depreciation	\$ 26,733,305	\$ 1,115,621	\$ 10,185,922
Special Purpose Funds:			
Restricted funds	3,353,606	--	899,771
Board designated funds	<u>1,353,666</u>	<u>1,151,062</u>	<u>--</u>
Total special purpose funds	4,707,272	1,151,062	899,771
Current Assets:			
Cash	3,265,062	2,331,722	26,908
Industrial development fund	152,906	124,112	--
Accounts receivable	363,219	114,742	249,371
Unbilled usage	281,123	60,526	96,210
Inventory	494,228	29,191	42,594
Prepaid expenses	41,244	30,875	32,018
Notes receivable - Telecommunications	<u>35,992</u>	<u>--</u>	<u>--</u>
Total current assets	4,633,774	2,691,168	447,101
Other Assets:			
Note receivable - Telecommunications	925,221	--	--
Other assets	<u>--</u>	<u>--</u>	<u>28,896</u>
Total other assets	925,221	--	28,896
Total assets	36,999,572	4,957,851	11,561,690
Deferred Outflows of Resources	<u>152,278</u>	<u>109,210</u>	<u>113,255</u>
Total assets and deferred outflows of resources	<u>\$ 37,151,850</u>	<u>\$ 5,067,061</u>	<u>\$ 11,674,945</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Long-Term Debt, less current maturities	\$ 3,183,000	\$ --	\$ 5,105,000
Net Pension Liability	474,654	388,354	402,738
Current Liabilities:			
Current maturities of long-term debt	928,000	--	344,000
Accounts payable	287,900	70,662	118,897
Accrued employee compensation	123,490	51,192	96,405
Accrued property taxes	108,474	--	--
Accrued expenses	53,955	1,767	4,036
Consumer credits	--	122,564	--
Due City of Harlan for collections and fees	--	--	308,126
Accrued interest	<u>19,424</u>	<u>--</u>	<u>81,735</u>
Total current liabilities	1,521,243	246,185	953,199
Other Liabilities:			
Consumer deposits	<u>58,734</u>	<u>--</u>	<u>--</u>
Total liabilities	5,237,631	634,539	6,460,937
Deferred Inflows of Resources - Pension	89,326	73,085	75,792
Net Position:			
Invested in capital assets, net of related debt	22,622,305	1,115,621	4,765,818
Restricted - expendable	3,353,606	--	899,771
Unrestricted	<u>5,848,982</u>	<u>3,243,816</u>	<u>(527,373)</u>
Total net position	31,824,893	4,359,437	5,138,216
Total liabilities, deferred inflows of resources, and net position	<u>\$ 37,151,850</u>	<u>\$ 5,067,061</u>	<u>\$ 11,674,945</u>

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Total</u>
\$ 3,838,262	\$ 41,873,110
310,943	4,564,320
<u>2,000</u>	<u>2,506,728</u>
312,943	7,071,048
50,965	5,674,657
--	277,018
211,964	939,296
980	438,839
4,901	570,914
27,443	131,580
--	35,992
<u>296,253</u>	<u>8,068,296</u>
--	925,221
--	28,896
<u>--</u>	<u>954,117</u>
4,447,458	57,966,571
<u>48,538</u>	<u>423,281</u>
<u>\$ 4,495,996</u>	<u>\$ 58,389,852</u>
\$ 1,936,221	\$ 10,224,221
172,601	1,438,347
187,992	1,459,992
95,920	573,379
51,274	322,361
--	108,474
37,592	97,350
--	122,564
--	308,126
<u>10,654</u>	<u>111,813</u>
383,432	3,104,059
--	58,734
2,492,254	14,825,361
32,482	270,685
1,714,049	30,217,793
310,943	4,564,320
(53,732)	8,511,693
<u>1,971,260</u>	<u>43,293,806</u>
<u>\$ 4,495,996</u>	<u>\$ 58,389,852</u>

HARLAN MUNICIPAL UTILITIES
Statements of Net Position
June 30, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>
Capital Assets - net of depreciation	\$ 26,606,006	\$ 1,086,912	\$ 10,207,462
Special Purpose Funds:			
Restricted funds	3,318,231	--	1,079,663
Board designated funds	<u>1,353,666</u>	<u>1,127,062</u>	<u>--</u>
Total special purpose funds	4,671,897	1,127,062	1,079,663
Current Assets:			
Cash	3,543,356	2,275,328	28,349
Industrial development fund	152,779	124,010	--
Accounts receivable	462,608	--	267,724
Unbilled usage	215,039	51,992	82,631
Inventory	225,887	27,101	38,511
Prepaid expenses	37,341	26,990	27,990
Notes receivable - Telecommunications	<u>26,732</u>	<u>--</u>	<u>--</u>
Total current assets	4,663,742	2,505,421	445,205
Other Assets:			
Note receivable - Telecommunications	272,576	--	--
Other assets	<u>--</u>	<u>--</u>	<u>33,234</u>
Total other assets	272,576	--	33,234
Total assets	36,214,221	4,719,395	11,765,564
Deferred Outflows of Resources	<u>162,208</u>	<u>113,716</u>	<u>117,928</u>
Total assets and deferred outflows of resources	<u>\$ 36,376,429</u>	<u>\$ 4,833,111</u>	<u>\$ 11,883,492</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Long-Term Debt, less current maturities	\$ 4,111,000	\$ --	\$ 5,449,000
Net Pension Liability	488,854	399,972	414,786
Current Liabilities:			
Current maturities of long-term debt	898,000	--	333,000
Checks issued in excess of cash balance	--	--	--
Accounts payable	615,825	72,784	81,779
Accrued employee compensation	136,973	51,629	94,400
Accrued property taxes	99,700	--	--
Accrued expenses	56,690	1,430	7,111
Consumer credits	--	47,485	--
Due City of Harlan for collections and fees	--	--	327,603
Accrued interest	<u>23,668</u>	<u>--</u>	<u>86,730</u>
Total current liabilities	1,830,856	173,328	930,623
Other Liabilities:			
Consumer deposits	<u>51,380</u>	<u>--</u>	<u>--</u>
Total liabilities	6,482,090	573,300	6,794,409
Deferred Inflows of Resources - Pension	51,461	42,105	43,664
Net Position:			
Invested in capital assets, net of related debt	21,597,006	1,086,912	4,458,696
Restricted - expendable	3,318,231	--	1,079,663
Unrestricted	<u>4,927,641</u>	<u>3,130,794</u>	<u>(492,940)</u>
Total net position	29,842,878	4,217,706	5,045,419
Total liabilities, deferred inflows of resources, and net position	<u>\$ 36,376,429</u>	<u>\$ 4,833,111</u>	<u>\$ 11,883,492</u>

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Total</u>
\$ 3,865,629	\$ 41,766,009
302,993	4,700,887
<u>104,000</u>	<u>2,584,728</u>
406,993	7,285,615
--	5,847,033
--	276,789
217,299	947,631
769	350,431
5,637	297,136
11,996	104,317
<u>--</u>	<u>26,732</u>
235,701	7,850,069
--	272,576
<u>--</u>	<u>33,234</u>
<u>--</u>	<u>305,810</u>
4,508,323	57,207,503
<u>50,541</u>	<u>444,393</u>
<u>\$ 4,558,864</u>	<u>\$ 57,651,896</u>
\$ 1,435,576	\$ 10,995,576
177,765	1,481,377
180,732	1,411,732
440,643	440,643
192,512	962,900
47,277	330,279
--	99,700
11,338	76,569
--	47,485
--	327,603
<u>11,713</u>	<u>122,111</u>
884,215	3,819,022
--	51,380
2,497,556	16,347,355
18,713	155,943
1,808,678	28,951,292
302,993	4,700,887
(69,076)	7,496,419
<u>2,042,595</u>	<u>41,148,598</u>
<u>\$ 4,558,864</u>	<u>\$ 57,651,896</u>

HARLAN MUNICIPAL UTILITIES
Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2020

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>
Operating Revenues:			
Sales to consumers	\$ 6,059,352	\$ 2,654,117	\$ 2,176,442
Other operating revenue	739,871	3,746	11,638
Other sales - MISO	<u>422,973</u>	<u>--</u>	<u>--</u>
Total operating revenues	7,222,196	2,657,863	2,188,080
Operating Expenses:			
Plant operation	2,333,287	1,804,999	746,596
Distribution operation	633,136	213,314	222,569
Transmission operation	320,948	--	--
Administrative and general	279,373	203,628	233,708
Consumer services	5,460	5,355	1,287
Marketing and stakeholder relations	32,088	20,219	23,845
Employee benefits	374,592	172,654	285,394
Depreciation and amortization	<u>1,139,262</u>	<u>71,093</u>	<u>391,582</u>
Total operating expenses	5,118,146	2,491,262	1,904,981
Operating Income (Loss)	2,104,050	166,601	283,099
Non-Operating Revenues (Expenses):			
Contributions to City in lieu of taxes	(184,553)	(34,946)	(37,365)
Income from investments	98,774	27,576	9,027
Interest expense on revenue bonds	(18,756)	--	(161,964)
Industrial development contribution	<u>(17,500)</u>	<u>(17,500)</u>	<u>--</u>
Non-Operating Expenses, net	(122,035)	(24,870)	(190,302)
Net Income (Loss)	1,982,015	141,731	92,797
Net Position, Beginning of Year	<u>29,842,878</u>	<u>4,217,706</u>	<u>5,045,419</u>
Net Position, End of Year	<u>\$ 31,824,893</u>	<u>\$ 4,359,437</u>	<u>\$ 5,138,216</u>

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Total</u>
\$ 2,181,677	\$ 13,071,588
32,824	788,079
--	422,973
<u>2,214,501</u>	<u>14,282,640</u>
1,307,680	6,192,562
212,965	1,281,984
--	320,948
231,717	948,426
--	12,102
97,939	174,091
206,179	1,038,819
<u>202,353</u>	<u>1,804,290</u>
<u>2,258,833</u>	<u>11,773,222</u>
(44,332)	2,509,418
(1,124)	(257,988)
4,829	140,206
(30,708)	(211,428)
--	(35,000)
<u>(27,003)</u>	<u>(364,210)</u>
(71,335)	2,145,208
<u>2,042,595</u>	<u>41,148,598</u>
<u>\$ 1,971,260</u>	<u>\$ 43,293,806</u>

HARLAN MUNICIPAL UTILITIES
Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2019

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>
Operating Revenues:			
Sales to consumers	\$ 6,247,087	\$ 2,963,647	\$ 2,082,659
Other operating revenue	185,185	4,898	--
Other sales - MISO	996,923	--	--
Total operating revenues	<u>7,429,195</u>	<u>2,968,545</u>	<u>2,082,659</u>
Operating Expenses:			
Plant operation	2,862,595	2,079,331	757,026
Distribution operation	674,334	212,641	242,302
Transmission operation	302,919	--	--
Administrative and general	295,027	206,730	227,357
Consumer services	10,798	6,557	2,167
Marketing and stakeholder relations	33,059	27,648	28,314
Employee benefits	324,013	146,348	252,302
Depreciation and amortization	1,119,541	70,719	380,752
Total operating expenses	<u>5,622,286</u>	<u>2,749,974</u>	<u>1,890,220</u>
Operating Income (Loss)	1,806,909	218,571	192,439
Non-Operating Revenues (Expenses):			
Contributions to City in lieu of taxes	(183,185)	(47,223)	(37,136)
Income from investments	86,070	22,083	9,596
Interest expense on revenue bonds	(28,478)	--	(172,776)
Industrial development contribution	(17,500)	(17,500)	--
Non-Operating Expenses, net	<u>(143,093)</u>	<u>(42,640)</u>	<u>(200,316)</u>
Net Income (Loss)	1,663,816	175,931	(7,877)
Net Position, Beginning of Year	<u>28,179,062</u>	<u>4,041,775</u>	<u>5,053,296</u>
Net Position, End of Year	<u>\$ 29,842,878</u>	<u>\$ 4,217,706</u>	<u>\$ 5,045,419</u>

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Total</u>
\$ 2,200,858	\$ 13,494,251
29,017	219,100
--	996,923
<u>2,229,875</u>	<u>14,710,274</u>
1,366,902	7,065,854
229,569	1,358,846
--	302,919
228,448	957,562
624	20,146
100,629	189,650
195,097	917,760
195,727	1,766,739
<u>2,316,996</u>	<u>12,579,476</u>
(87,121)	2,130,798
(1,062)	(268,606)
5,265	123,014
(39,745)	(240,999)
--	(35,000)
<u>(35,542)</u>	<u>(421,591)</u>
(122,663)	1,709,207
<u>2,165,258</u>	<u>39,439,391</u>
<u>\$ 2,042,595</u>	<u>\$ 41,148,598</u>

HARLAN MUNICIPAL UTILITIES
Statements of Cash Flows
Year ended June 30, 2020

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>
Cash flows from operating activities:			
Cash received from consumers	\$ 6,093,770	\$ 2,600,565	\$ 2,179,976
Cash paid to suppliers	(4,047,414)	(2,127,726)	(1,041,047)
Cash paid to employees	(503,671)	(271,417)	(437,899)
Other operating revenue	<u>1,162,844</u>	<u>3,746</u>	<u>11,638</u>
Net cash provided by operating activities	2,705,529	205,168	712,668
Cash flows from noncapital financing activities:			
Contributions to City - in lieu of taxes	<u>(184,553)</u>	<u>(34,946)</u>	<u>(37,365)</u>
Net cash used in noncapital financing activities	(184,553)	(34,946)	(37,365)
Cash flows from capital and related financing activities:			
Debt proceeds	--	--	--
Principal payments	(898,000)	--	(333,000)
Interest paid on revenue bonds	(86,184)	--	(168,465)
Capital expenditures	(1,198,953)	(99,802)	(364,198)
Decrease in checks issued in excess of cash balance	<u>--</u>	<u>--</u>	<u>--</u>
Net cash used in capital and related financing activities	(2,183,137)	(99,802)	(865,663)
Cash flows from investing activities:			
Special purpose fund investments:			
Acquisitions/Proceeds	(72,091)	--	170,000
Operating and capital reserves:			
Telecommunications department note advance	(692,708)	--	--
Telecommunications department note proceeds	30,803	--	--
Income from investments	98,774	27,576	9,027
Industrial development contribution	<u>(17,500)</u>	<u>(17,500)</u>	<u>--</u>
Net cash provided by (used in) investing activities	<u>(652,722)</u>	<u>10,076</u>	<u>179,027</u>
Net increase (decrease) in cash	(314,883)	80,496	(11,333)
Cash at beginning of year	<u>5,266,815</u>	<u>2,926,400</u>	<u>711,012</u>
Cash at end of year	<u>\$ 4,951,932</u>	<u>\$ 3,006,896</u>	<u>\$ 699,679</u>

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<u>Telecommunications</u>	<u>Total</u>
\$ 2,186,998	\$ 13,061,309
(1,781,576)	(8,997,763)
(345,545)	(1,558,532)
<u>32,824</u>	<u>1,211,052</u>
92,701	3,716,066
 (1,124)	 (257,988)
(1,124)	(257,988)
 692,708	 692,708
(184,803)	(1,415,803)
(68,182)	(322,831)
(138,571)	(1,801,524)
<u>440,643</u>	<u>440,643</u>
(139,491)	(3,288,093)
 --	 97,909
--	(692,708)
--	30,803
4,829	140,206
<u>--</u>	<u>(35,000)</u>
<u>4,829</u>	<u>(458,790)</u>
(43,085)	(288,805)
<u>360,795</u>	<u>9,265,022</u>
<u>\$ 317,710</u>	<u>\$ 8,976,217</u>

HARLAN MUNICIPAL UTILITIES
Statements of Cash Flows - Continued
Year ended June 30, 2020

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>
Reconciliation of cash to the statements of net position:			
Cash in current assets	\$ 3,417,968	\$ 2,455,834	\$ 26,908
Cash in special purpose funds	<u>1,533,964</u>	<u>551,062</u>	<u>672,771</u>
Total cash	<u>\$ 4,951,932</u>	<u>\$ 3,006,896</u>	<u>\$ 699,679</u>
Reconciliation of income (loss) from operations to net cash provided by operating activities:			
Income (loss) from operations	\$ 2,104,050	\$ 166,601	\$ 283,099
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:			
Depreciation	1,139,262	71,093	387,244
Amortization	--	--	4,338
Changes in assets and liabilities:			
Receivables	33,305	(123,276)	4,774
Inventory	(268,341)	(2,090)	(4,083)
Prepaid expenses	(3,903)	(3,885)	(4,028)
Customer credits	--	75,079	--
Deferred outflows of resources - pension	5,506	4,506	4,673
Net pension liability	(14,200)	(11,618)	(12,048)
Accounts payable:			
Trade	(327,925)	(2,122)	37,118
Accrued employee compensation	(13,483)	(437)	2,005
Accrued property taxes	8,774	--	--
Accrued expenses	(2,735)	337	(3,075)
Due to city sewer	--	--	(19,477)
Consumer deposits	7,354	--	--
Deferred inflows of resources	<u>37,865</u>	<u>30,980</u>	<u>32,128</u>
Total adjustments	<u>601,479</u>	<u>38,567</u>	<u>429,569</u>
Net cash provided by operating activities	<u>\$ 2,705,529</u>	<u>\$ 205,168</u>	<u>\$ 712,668</u>

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Total</u>
\$ 50,965	\$ 5,951,675
<u>266,745</u>	<u>3,024,542</u>
\$ <u>317,710</u>	\$ <u>8,976,217</u>
\$(44,332)	\$ 2,509,418
202,353	1,799,952
--	4,338
5,124	(80,073)
736	(273,778)
(15,447)	(27,263)
--	75,079
2,003	16,688
(5,164)	(43,030)
(96,592)	(389,521)
3,997	(7,918)
--	8,774
26,254	20,781
--	(19,477)
--	7,354
<u>13,769</u>	<u>114,742</u>
<u>137,033</u>	<u>1,206,648</u>
\$ <u>92,701</u>	\$ <u>3,716,066</u>

HARLAN MUNICIPAL UTILITIES
Statements of Cash Flows
Year ended June 30, 2019

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>
Cash flows from operating activities:			
Cash received from consumers	\$ 6,330,620	\$ 3,039,954	\$ 2,064,776
Cash paid to suppliers	(3,700,020)	(2,406,719)	(1,001,588)
Cash paid to employees	(492,480)	(258,523)	(423,956)
Other operating revenue	<u>1,182,108</u>	<u>4,898</u>	<u>--</u>
Net cash provided by operating activities	3,320,228	379,610	639,232
Cash flows from noncapital financing activities:			
Contributions to City - in lieu of taxes	<u>(183,185)</u>	<u>(47,223)</u>	<u>(37,136)</u>
Net cash used in noncapital financing activities	(183,185)	(47,223)	(37,136)
Cash flows from capital and related financing activities:			
Principal payments	(880,000)	--	(322,000)
Interest paid on revenue bonds	(102,985)	--	(178,290)
Capital expenditures	(2,551,201)	(139,841)	(370,831)
Increase in checks issued in excess of cash balance	<u>--</u>	<u>--</u>	<u>--</u>
Net cash used in capital and related financing activities	(3,534,186)	(139,841)	(871,121)
Cash flows from investing activities:			
Special purpose fund investments:			
Acquisitions	(68,315)	--	--
Operating and capital reserves:			
Telecommunications department note proceeds	25,749	--	--
Income from investments	86,070	22,083	9,596
Industrial development contribution	<u>(17,500)</u>	<u>(17,500)</u>	<u>--</u>
Net cash provided by investing activities	<u>26,004</u>	<u>4,583</u>	<u>9,596</u>
Net increase (decrease) in cash	(371,139)	197,129	(259,429)
Cash at beginning of year	<u>5,637,954</u>	<u>2,729,271</u>	<u>970,441</u>
Cash at end of year	<u>\$ 5,266,815</u>	<u>\$ 2,926,400</u>	<u>\$ 711,012</u>

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<u>Telecommunications</u>	<u>Total</u>
\$ 2,190,936	\$ 13,626,286
(1,781,576)	(8,889,903)
(351,972)	(1,526,931)
<u>29,017</u>	<u>1,216,023</u>
86,405	4,425,475
(1,062)	(268,606)
(1,062)	(268,606)
(182,749)	(1,384,749)
(62,525)	(343,800)
(721,124)	(3,782,997)
<u>427,841</u>	<u>427,841</u>
(538,557)	(5,083,705)
--	(68,315)
--	25,749
5,265	123,014
<u>--</u>	<u>(35,000)</u>
<u>5,265</u>	<u>45,448</u>
(447,949)	(881,388)
<u>808,744</u>	<u>10,146,410</u>
<u>\$ 360,795</u>	<u>\$ 9,265,022</u>

HARLAN MUNICIPAL UTILITIES
Statements of Cash Flows - Continued
Year ended June 30, 2019

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>
Reconciliation of cash to the statements of net position:			
Cash in current assets	\$ 3,696,135	\$ 2,399,338	\$ 28,349
Cash in special purpose funds	<u>1,570,680</u>	<u>527,062</u>	<u>682,663</u>
Total cash	<u>\$ 5,266,815</u>	<u>\$ 2,926,400</u>	<u>\$ 711,012</u>
Reconciliation of income (loss) from operations to net cash provided by operating activities:			
Income (loss) from operations	\$ 1,806,909	\$ 218,571	\$ 192,439
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:			
Depreciation	1,119,541	70,719	376,159
Amortization	--	--	4,593
Changes in assets and liabilities:			
Receivables	83,533	110,608	(16,367)
Inventory	232,484	807	(10)
Prepaid expenses	9,589	7,846	8,136
Customer credits	--	(28,594)	--
Deferred outflows of resources - pension	16,935	13,856	14,369
Net pension liability	(20,962)	(17,150)	(17,786)
Accounts payable:			
Trade	35,007	(10,218)	25,609
Accrued employee compensation	24,291	7,513	13,420
Accrued property taxes	(2,275)	--	--
Accrued expenses	4,355	308	(3,724)
Due to city sewer	--	--	36,852
Consumer deposits	4,290	--	--
Deferred inflows of resources	<u>6,531</u>	<u>5,344</u>	<u>5,542</u>
Total adjustments	<u>1,513,319</u>	<u>161,039</u>	<u>446,793</u>
Net cash provided by operating activities	<u>\$ 3,320,228</u>	<u>\$ 379,610</u>	<u>\$ 639,232</u>

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Total</u>
\$ --	\$ 6,123,822
<u>360,795</u>	<u>3,141,200</u>
<u>\$ 360,795</u>	<u>\$ 9,265,022</u>
\$(87,121)	\$ 2,130,798
195,727	1,762,146
--	4,593
(9,943)	167,831
(1,369)	231,912
3,487	29,058
--	(28,594)
6,158	51,318
(7,623)	(63,521)
(23,623)	26,775
5,466	50,690
--	(2,275)
2,872	3,811
--	36,852
--	4,290
<u>2,374</u>	<u>19,791</u>
<u>173,526</u>	<u>2,294,677</u>
<u>\$ 86,405</u>	<u>\$ 4,425,475</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The Harlan Municipal Utilities is made up of four enterprise funds (departments) instituted to provide electric, gas, water, and telecommunications service to residents of the City and the surrounding area. The Utilities are operated as a separate entity under the direction of a Board of Trustees. The members of the Board are appointed by the Mayor and approved by the City Council.

Harlan Municipal Utilities has been identified as a component unit of the City of Harlan, Iowa. The Utilities, for financial statement purposes, include all of the funds and account groups relevant to the operation of the electric, gas, water and telecommunications services. Harlan Municipal Utilities provides billing and collection services for the City of Harlan, however, those amounts have been eliminated for financial statement purposes. These financial statements do not reflect any activity or transactions of the City of Harlan and do not present consolidated information.

The financial positions and operations of the four departments are accounted for and reported separately in these financial statements. The Utilities report in accordance with Governmental Accounting Standards and Uniform Systems of Accounts prescribed by the Federal Energy Regulatory Commission and the National Association of Regulatory Utility Commissioners.

2. Basis of Presentation

The Statement of Net Position displays the Utilities' assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position:

- a. *Nonexpendable* - Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Utilities.
- b. *Expendable* - Expendable net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the Utilities' policy to use restricted net position first.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

3. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Utility Plant and Depreciation

The straight-line method is used for computing depreciation with lives on machinery and equipment ranging from five to thirty-five years and lives on buildings of fifty years. Cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties in efficient operating condition are charged to expense. Utility plant accounts are charged with the cost of improvements and replacements of the plant.

6. Accounts Receivable and Revenue Recognition

Billings for electric, water, gas and telecommunications revenues are rendered monthly on a cyclical basis. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Accounts receivable reported in the statements of net position are shown net of the allowances for doubtful accounts (Electric: \$35,000 in 2020 and 2019) (Gas: \$28,000 in 2020 and 2019) (Water: \$16,300 in 2020 and 2019) (Telecommunications: \$56,000 in 2020 and 2019).

7. Inventory Valuation

Inventories (materials, supplies and fuel) are valued at the lower of cost or market. Cost is determined on a first-in, first-out method for materials and supplies and a weighted average basis for fuel.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

8. Investments

Investments are reported at fair value except for short-term highly liquid investments that have maturities of less than one year at the time of purchase. These investments are carried at amortized cost, which approximates fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned.

9. Purpose of Special Funds

The Utilities have set aside certain assets for specific purposes. The board designated funds represent money designated by the Board of Trustees to be used in the payment of certain potential costs as identified in Note D. The restricted funds, as discussed in Note D, are the result of requirements established in bond issue documents and for customer deposits. Use of restricted or unrestricted resources for individual projects is determined by the Utility Board of Trustees based on the facts regarding each specific situation.

10. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position applicable to future periods which will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense, contributions from the Utilities after the measurement date but before the end of the Utilities' reporting period and deferred refunding costs.

11. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12. Compensated Absences

Utility employees earn vacation hours at varying rates depending on years of service. Vacation time accumulates to a maximum of 300 hours. Any excess over 300 hours is lost. The computed amount of vacation benefits earned by year end is recorded as part of accrued employee compensation.

A limited amount of earned but unused sick leave may be accrued by an employee. Sick leave is payable when used, over maximum, or upon retirement or death. If an employee has accumulated over the maximum 576 hours, one-half of the excess will be paid to the employee each November. An employee forfeits any accrued sick leave if he resigns or is terminated before retirement. The accrued amounts for the one-half have been recognized in the financial statements as of June 30, 2020 and 2019 at current pay rates.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

13. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position applicable to future periods which will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of the unrecognized items not yet charged to pension expense and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

14. Property Taxes

According to Iowa law, the Electric Utility is required to pay property taxes on transmission lines and related Utility property outside the Harlan city limits. The property taxes are recorded as of the date they become a liability.

15. Cash Equivalents

For purposes of the statement of cash flows, the Harlan Municipal Utilities considers all highly liquid debt instruments purchased with a maturity of less than three months to be cash equivalents.

16. Debt Costs During Periods of Construction

During construction, costs of related debt are accumulated and capitalized. Interest earned on invested debt proceeds is offset against the accumulated debt costs and the net amount is included in capitalized construction costs. The Utilities capitalized interest of \$67,608 in 2020 (\$74,773 in 2019) in the Electric Department, \$1,506 in 2020 (\$684 in 2019) in the Water Department, and \$36,415 in 2020 (\$21,799 in 2019) in the Telecommunications Department.

17. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2020, disbursements did not exceed the amounts budgeted in the business type activities function.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE B - TRANSACTIONS WITH CITY OF HARLAN, IOWA

The Utilities provide electric, gas, water, and telecommunications services to the City without payment.

The Utilities act as the billing and collection agent for the City in the collection of sewer and landfill fees from the residents of Harlan. This service is provided for no charge to the City.

Following is a summary of activity between the Utilities and City during the year and amounts due to or receivable from the City at year end:

<u>Water Department</u>	<u>2020</u>	<u>2019</u>
Sewer Fees Collected for City	\$ <u>1,107,950</u>	\$ <u>1,052,291</u>
Landfill Fees Collected for City	\$ <u>133,031</u>	\$ <u>131,911</u>
Account Payable to City	\$ <u>308,126</u>	\$ <u>327,603</u>

NOTE C - TRANSACTIONS BETWEEN ELECTRIC, GAS, WATER, AND
TELECOMMUNICATIONS DEPARTMENTS

Certain administrative costs are split between the Electric, Gas, Water, and Telecommunications Departments based on a formula applied consistently throughout the years. Other costs and all revenues are separately identified and accounted for within each Department.

Following is information about interdepartment transactions and amounts due between the Electric, Gas, Water, and Telecommunications Departments at June 30:

	<u>2020</u>	<u>2019</u>
Interest income (Electric) and expense (Telecommunications) during the year	\$ <u>21,332</u>	\$ <u>11,750</u>
Interest bearing note due to Electric from Telecommunications Department	\$ <u>961,213</u>	\$ <u>299,308</u>
Less current portion	<u>(35,992)</u>	<u>(26,732)</u>
	\$ <u>925,221</u>	\$ <u>272,576</u>
Current portion of interest bearing note due to Electric from Telecommunications Department	\$ <u>35,992</u>	\$ <u>26,732</u>

See Note L for details of the interest bearing note due to Electric from Telecommunications.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
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NOTE D - SPECIAL PURPOSE FUNDS

Restricted and board designated net assets are available for the following purposes:

Electric Department

	<u>2020</u>	<u>2019</u>
Restricted by Bond Resolution for:		
Payment of principal and interest	\$ 1,537,089	\$ 1,511,056
Capital improvements	1,044,624	1,035,357
Restricted by Debt Reserve	726,196	726,196
Consumer Deposit Fund	<u>45,697</u>	<u>45,622</u>
Total restricted	<u>\$ 3,353,606</u>	<u>\$ 3,318,231</u>
Board Designated for:		
Plant improvements, emergency and contingency funds	\$ 1,205,000	\$ 1,205,000
Replacement funds bond requirement	<u>148,666</u>	<u>148,666</u>
Total board designated	<u>\$ 1,353,666</u>	<u>\$ 1,353,666</u>

Gas Department

	<u>2020</u>	<u>2019</u>
Board Designated for:		
System improvements	\$ 1,151,062	\$ 1,127,062
Total board designated	<u>\$ 1,151,062</u>	<u>\$ 1,127,062</u>

Water Department

	<u>2020</u>	<u>2019</u>
Restricted:		
Payment of principal and interest	\$ 277,087	\$ 286,979
Capital improvements	--	170,000
Debt reserve	<u>622,684</u>	<u>622,684</u>
Total restricted	<u>\$ 899,771</u>	<u>\$ 1,079,663</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE D - SPECIAL PURPOSE FUNDS - Continued

Telecommunications Department

	<u>2020</u>	<u>2019</u>
Restricted:		
Payment of principal and interest	\$ 172,745	\$ 164,795
Debt reserve	<u>138,198</u>	<u>138,198</u>
Total restricted	<u>\$ 310,943</u>	<u>\$ 302,993</u>
Board Designated for:		
System improvements, emergency and contingency funds	<u>\$ 2,000</u>	<u>\$ 104,000</u>
Total board designated	<u>\$ 2,000</u>	<u>\$ 104,000</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Utilities' deposits at June 30, 2020 and 2019 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Utilities or their agent in the Utilities' name. Investments are stated as indicated in Note A.

The Utilities are authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Electric Department's investments are as follows:

	<u>2020</u>	<u>2019</u>
Invested Funds:		
Certificates of Deposit	\$ 3,173,308	\$ 3,101,217
Other Interest Bearing Accounts	<u>1,533,964</u>	<u>1,570,680</u>
Total Investments	<u>\$ 4,707,272</u>	<u>\$ 4,671,897</u>

The Gas Department's investments are as follows:

	<u>2020</u>	<u>2019</u>
Invested Funds:		
Certificates of Deposit	\$ 600,000	\$ 600,000
Other Interest Bearing Accounts	<u>551,062</u>	<u>527,062</u>
Total Investments	<u>\$ 1,151,062</u>	<u>\$ 1,127,062</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The Water Department's investments are as follows:

	2020	2019
Invested Funds:		
Certificates of Deposit	\$ 227,000	\$ 397,000
Other Interest Bearing Accounts	672,771	682,663
Total Investments	<u>\$ 899,771</u>	<u>\$ 1,079,663</u>

The Telecommunications Department's investments are as follows:

	2020	2019
Invested Funds:		
Certificates of Deposit	\$ 46,198	\$ 46,198
Other Interest Bearing Accounts	266,745	360,795
Total Investments	<u>\$ 312,943</u>	<u>\$ 406,993</u>

Interest rate risk - The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utilities.

NOTE F - FAIR VALUE MEASUREMENTS

The Utilities' investments are reported at fair value in the accompanying statements of net position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets (Level 1). Level 3 inputs are unobservable and have the lowest priority. The Utilities uses appropriate valuation techniques based on the available inputs to measure the fair value of its note receivable. When available, the Utilities measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 1 or 2 inputs were available to the Utilities, therefore, Level 3 inputs were used to value its investments at June 30, 2020 and 2019.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Level 3 Fair Value Measurements

The Electric Department's note receivable is not actively traded and significant other observable inputs are not available. Thus, the fair value of the note receivable is based on contract value.

The following tables set forth, by level within the fair value hierarchy, the Utilities' investments at fair value as of June 30, 2020 and 2019:

		Fair Value Measurements at Reporting Date Using: Contract Value (Level 3)
<u>June 30, 2020</u>	<u>Fair Value</u>	
Note receivable	\$ 961,213	\$ 961,213
<u>June 30, 2019</u>		
Note receivable	\$ 299,308	\$ 299,308

The following table reconciles the beginning and ending balances of fair value measurement for the Utilities' Level 3 assets using unobservable inputs for the years ended June 30, 2020 and 2019:

	Note Receivable
<u>June 30, 2020</u>	
Beginning balance	\$ 299,308
Advance on note receivable	692,708
Collections on note receivable	(30,803)
Ending balance	\$ 961,213
<u>June 30, 2019</u>	
Beginning balance	\$ 325,057
Collections on note receivable	(25,749)
Ending balance	\$ 299,308

HARLAN MUNICIPAL UTILITIES
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NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals, and balances for the years ended June 30, 2020 and 2019 were as follows:

	Balance 2019	Additions	Disposals	Balance 2020
<u>Electric Department</u>				
Plant and Equipment	\$ 50,658,709	\$ 6,168,556	\$ --	\$ 56,827,265
Depreciation	(29,072,530)	(1,139,262)	--	(30,211,792)
Depreciable Capital Assets, Net	<u>\$ 21,586,179</u>	<u>\$ 5,029,294</u>	<u>\$ --</u>	<u>\$ 26,615,473</u>
Construction in Progress	\$ 4,901,995	\$ 575,824	\$ 5,477,819	\$ --
Land and Land Rights	<u>117,832</u>	<u>--</u>	<u>--</u>	<u>117,832</u>
Non-Depreciable Capital Assets	<u>\$ 5,019,827</u>	<u>\$ 575,824</u>	<u>\$ 5,477,819</u>	<u>\$ 117,832</u>
	Balance 2018	Additions	Disposals	Balance 2019
<u>Electric Department</u>				
Plant and Equipment	\$ 50,036,346	\$ 622,363	\$ --	\$ 50,658,709
Depreciation	(27,952,989)	(1,119,541)	--	(29,072,530)
Depreciable Capital Assets, Net	<u>\$ 22,083,357</u>	<u>\$ (497,178)</u>	<u>\$ --</u>	<u>\$ 21,586,179</u>
Construction in Progress	\$ 2,898,384	\$ 2,003,611	\$ --	\$ 4,901,995
Land and Land Rights	<u>117,832</u>	<u>--</u>	<u>--</u>	<u>117,832</u>
Non-Depreciable Capital Assets	<u>\$ 3,016,216</u>	<u>\$ 2,003,611</u>	<u>\$ --</u>	<u>\$ 5,019,827</u>
	Balance 2019	Additions	Disposals	Balance 2020
<u>Gas Department</u>				
Plant and Equipment	\$ 3,195,393	\$ 99,802	\$ --	\$ 3,295,195
Depreciation	(2,115,981)	(71,093)	--	(2,187,074)
Depreciable Capital Assets, Net	<u>\$ 1,079,412</u>	<u>\$ 28,709</u>	<u>\$ --</u>	<u>\$ 1,108,121</u>
Land and Land Rights	<u>\$ 7,500</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 7,500</u>
Non-Depreciable Capital Assets	<u>\$ 7,500</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 7,500</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE G - CAPITAL ASSETS - Continued

	<u>Balance 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2019</u>
<u>Gas Department</u>				
Plant and Equipment	\$ 3,055,552	\$ 139,841	\$ --	\$ 3,195,393
Depreciation	<u>(2,045,262)</u>	<u>(70,719)</u>	<u>--</u>	<u>(2,115,981)</u>
Depreciable Capital Assets, Net	<u>\$ 1,010,290</u>	<u>\$ 69,122</u>	<u>\$ --</u>	<u>\$ 1,079,412</u>
Land and Land Rights	<u>\$ 7,500</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 7,500</u>
Non-Depreciable Capital Assets	<u>\$ 7,500</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 7,500</u>
	<u>Balance 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2020</u>
<u>Water Department</u>				
Plant and Equipment	\$ 16,712,637	\$ 341,879	\$ --	\$ 17,054,516
Depreciation	<u>(6,587,484)</u>	<u>(387,244)</u>	<u>--</u>	<u>(6,974,728)</u>
Depreciable Capital Assets, Net	<u>\$ 10,125,153</u>	<u>\$ (45,365)</u>	<u>\$ --</u>	<u>\$ 10,079,788</u>
Construction in Progress	\$ 77,859	\$ 101,684	\$ 77,859	\$ 101,684
Land and Land Rights	<u>4,450</u>	<u>--</u>	<u>--</u>	<u>4,450</u>
Non-Depreciable Capital Assets	<u>\$ 82,309</u>	<u>\$ 101,684</u>	<u>\$ 77,859</u>	<u>\$ 106,134</u>
	<u>Balance 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2019</u>
<u>Water Department</u>				
Plant and Equipment	\$ 16,418,981	\$ 293,656	\$ --	\$ 16,712,637
Depreciation	<u>(6,211,325)</u>	<u>(376,159)</u>	<u>--</u>	<u>(6,587,484)</u>
Depreciable Capital Assets, Net	<u>\$ 10,207,656</u>	<u>\$ (82,503)</u>	<u>\$ --</u>	<u>\$ 10,125,153</u>
Construction in Progress	\$ --	\$ 77,859	\$ --	\$ 77,859
Land and Land Rights	<u>4,450</u>	<u>--</u>	<u>--</u>	<u>4,450</u>
Non-Depreciable Capital Assets	<u>\$ 4,450</u>	<u>\$ 77,859</u>	<u>\$ --</u>	<u>\$ 82,309</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE G - CAPITAL ASSETS - Continued

	<u>Balance 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2020</u>
<u>Telecommunications Department</u>				
Plant and Equipment	\$ 6,259,149	\$ 1,144,898	\$ --	\$ 7,404,047
Depreciation	<u>(3,387,672)</u>	<u>(202,353)</u>	<u>--</u>	<u>(3,590,025)</u>
Depreciable Capital Assets, Net	<u>\$ 2,871,477</u>	<u>\$ 942,545</u>	<u>\$ --</u>	<u>\$ 3,814,022</u>
Construction in Progress	\$ 969,912	\$ 61,260	\$ 1,031,172	\$ --
Land and Land Rights	<u>24,240</u>	<u>--</u>	<u>--</u>	<u>24,240</u>
Non-Depreciable Capital Assets	<u>\$ 994,152</u>	<u>\$ 61,260</u>	<u>\$ 1,031,172</u>	<u>\$ 24,240</u>
	<u>Balance 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2019</u>
<u>Telecommunications Department</u>				
Plant and Equipment	\$ 6,157,865	\$ 101,284	\$ --	\$ 6,259,149
Depreciation	<u>(3,191,945)</u>	<u>(195,727)</u>	<u>--</u>	<u>(3,387,672)</u>
Depreciable Capital Assets, Net	<u>\$ 2,965,920</u>	<u>\$ (94,443)</u>	<u>\$ --</u>	<u>\$ 2,871,477</u>
Construction in Progress	\$ 328,273	\$ 641,639	\$ --	\$ 969,912
Land and Land Rights	<u>24,240</u>	<u>--</u>	<u>--</u>	<u>24,240</u>
Non-Depreciable Capital Assets	<u>\$ 352,513</u>	<u>\$ 641,639</u>	<u>\$ --</u>	<u>\$ 994,152</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE H - DEFERRED OUTFLOWS OF RESOURCES

The deferred outflows of resources include deferred refunding costs and pension items. The deferred refunding cost is the difference between the reacquisition price and the net carrying amount of the old debt through an advance refunding. The deferred pension items represent the differences between expected and actual experience, changes of assumptions, changes in proportion of contributions and contributions subsequent to the measurement date. A schedule of the balances for the years ended June 30, 2020 and 2019 follows:

<u>June 30, 2020</u>	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Telecommunications</u>	<u>Total</u>
Refunding costs	\$ 18,798	\$ --	\$ --	\$ --	\$ 18,798
Pension	<u>133,480</u>	<u>109,210</u>	<u>113,255</u>	<u>48,538</u>	<u>404,483</u>
	<u>\$ 152,278</u>	<u>\$ 109,210</u>	<u>\$ 113,255</u>	<u>\$ 48,538</u>	<u>\$ 423,281</u>
<u>June 30, 2019</u>	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Telecommunications</u>	<u>Total</u>
Refunding costs	\$ 23,222	\$ --	\$ --	\$ --	\$ 23,222
Pension	<u>138,986</u>	<u>113,716</u>	<u>117,928</u>	<u>50,541</u>	<u>421,171</u>
	<u>\$ 162,208</u>	<u>\$ 113,716</u>	<u>\$ 117,928</u>	<u>\$ 50,541</u>	<u>\$ 444,393</u>

NOTE I - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Electric Department non-current liabilities for the years ended June 30, 2020 and 2019 follows:

	<u>Balance 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2020</u>
2017 Revenue Capital				
Loan Notes	\$ 5,009,000	\$ --	\$ 898,000	\$ 4,111,000
Less Current Portion	<u>(898,000)</u>	<u>(928,000)</u>	<u>(898,000)</u>	<u>(928,000)</u>
Long-Term Debt, Net	4,111,000	<u>(928,000)</u>	--	3,183,000
Net Pension Liability	488,854	--	14,200	474,654
Consumer Deposits, Net	<u>51,380</u>	<u>7,354</u>	<u>--</u>	<u>58,734</u>
Total Non-Current Liabilities	<u>\$ 4,651,234</u>	<u>\$ (920,646)</u>	<u>\$ 14,200</u>	<u>\$ 3,716,388</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE I - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES - Continued

	<u>Balance 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2019</u>
2017 Revenue Capital				
Loan Notes	\$ 5,889,000	\$ --	\$ 880,000	\$ 5,009,000
Less Current Portion	(880,000)	(898,000)	(880,000)	(898,000)
Long-Term Debt, Net	<u>5,009,000</u>	<u>(898,000)</u>	<u>--</u>	<u>4,111,000</u>
Net Pension Liability	509,816	--	20,962	488,854
Consumer Deposits, Net	<u>47,090</u>	<u>4,290</u>	<u>--</u>	<u>51,380</u>
Total Non-Current Liabilities	<u>\$ 5,565,906</u>	<u>\$ (893,710)</u>	<u>\$ 20,962</u>	<u>\$ 4,651,234</u>

Series 2017 Revenue Capital Loan Notes

The Series 2017 Revenue Capital Loan Notes were issued to advance refund the Series 2010 Revenue Capital Loan Notes. The 2017 Series Revenue Capital Loan Notes constitute a lien on the net income of the Electric Department. They are not general obligations of the City of Harlan. The notes mature in increasing amounts ranging from \$54,000 to \$996,000. Interest rate is 1.89%. The notes are subject to early redemption at any time.

The annual debt service on the notes is expected to require less than 32% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$991,300 and \$3,140,000, respectively.

HARLAN MUNICIPAL UTILITIES
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NOTE I - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES - Continued

The resolutions of the Board of Trustees authorizing the issuance of the 2017 Electric Revenue Capital Loan Notes specify the creation and maintenance of a sinking fund, a debt service reserve fund, a capital improvement fund, and a surplus fund. Funding requirements have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date. Principal and interest payments required on Electric Department long-term debt during each of the five years ending June 30, 2021 through 2025 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 928,000	\$ 68,928	\$ 996,928
2022	950,000	51,181	1,001,181
2023	979,000	32,952	1,011,952
2024	996,000	14,288	1,010,288
2025	<u>258,000</u>	<u>2,438</u>	<u>260,438</u>
	<u>\$ 4,111,000</u>	<u>\$ 169,787</u>	<u>\$ 4,280,787</u>

NOTE J - GAS DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Gas Department non-current liabilities for the years ended June 30, 2020 and 2019 follows:

	<u>Balance 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2020</u>
Net Pension Liability	\$ 399,972	\$ --	\$ 11,618	\$ 388,354
Total Non-Current Liabilities	<u>\$ 399,972</u>	<u>\$ --</u>	<u>\$ 11,618</u>	<u>\$ 388,354</u>
	<u>Balance 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2019</u>
Net Pension Liability	\$ 417,122	\$ --	\$ 17,150	\$ 399,972
Total Non-Current Liabilities	<u>\$ 417,122</u>	<u>\$ --</u>	<u>\$ 17,150</u>	<u>\$ 399,972</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE K - WATER DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Water Department non-current liabilities for the years ended June 30, 2020 and 2019 follows:

	<u>Balance 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2020</u>
2012 Revenue Capital				
Loan Notes	\$ 5,782,000	\$ --	\$ 333,000	\$ 5,449,000
Less Current Portion	<u>(333,000)</u>	<u>(344,000)</u>	<u>(333,000)</u>	<u>(344,000)</u>
Long-Term Debt, Net	5,449,000	(344,000)	--	5,105,000
Net Pension Liability	<u>414,786</u>	<u>--</u>	<u>12,048</u>	<u>402,738</u>
Total Non-Current Liabilities	<u>\$ 5,863,786</u>	<u>\$ (344,000)</u>	<u>\$ 12,048</u>	<u>\$ 5,507,738</u>
	<u>Balance 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2019</u>
2012 Revenue Capital				
Loan Notes	\$ 6,104,000	\$ --	\$ 322,000	\$ 5,782,000
Less Current Portion	<u>(322,000)</u>	<u>(333,000)</u>	<u>(322,000)</u>	<u>(333,000)</u>
Long-Term Debt, Net	5,782,000	(333,000)	--	5,449,000
Net Pension Liability	<u>432,572</u>	<u>--</u>	<u>17,786</u>	<u>414,786</u>
Total Non-Current Liabilities	<u>\$ 6,214,572</u>	<u>\$ (333,000)</u>	<u>\$ 17,786</u>	<u>\$ 5,863,786</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE K - WATER DEPARTMENT NON-CURRENT LIABILITIES - Continued

Series 2012 Water Revenue Capital Loan Notes

The Series 2012 Water Revenue Capital Loan Notes were issued to advance refund the Series 1999 Water Revenue Bonds and the Series 2004 Water Revenue Refunding Capital Loan Notes and provide funding for capital needs. The Series 2012 Capital Loan Notes constitute a lien on the net income of the Water Department. They are not general obligations of the City of Harlan. The notes mature in increasing amounts ranging from \$315,000 to \$495,000. The interest rate is 3% for the life of the loan. The note is subject to early redemption at any point with 30 days notice given to the original purchaser.

The annual debt service on the notes is expected to require less than 78% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$500,600 and \$646,300, respectively.

The resolutions of the Board of Trustees authorizing the issuance of the 2012 Water Revenue Capital Loan Notes specify the creation and maintenance of a sinking fund, a debt service fund, a capital improvement fund, and a surplus fund. Funding requirements have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date. Principal and interest payments required on Water Department long-term debt during each of the five years ending June 30, 2021 through 2025 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 344,000	\$ 158,310	\$ 502,310
2022	360,000	147,750	507,750
2023	370,000	136,800	506,800
2024	380,000	125,550	505,550
2025	395,000	113,925	508,925
2026-2030	2,180,000	380,700	2,560,700
2031-2033	<u>1,420,000</u>	<u>62,850</u>	<u>1,482,850</u>
	<u>\$ 5,449,000</u>	<u>\$ 1,125,885</u>	<u>\$ 6,574,885</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE L - TELECOMMUNICATIONS DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Telecommunications Department non-current liabilities for the years ended June 30, 2020 and 2019 follows:

	Balance 2019	Additions	Reductions	Balance 2020
Due to Electric Department 2018 Revenue Capital Loan Notes	\$ 299,308	\$ 692,708	\$ 30,803	\$ 961,213
	<u>1,317,000</u>	<u>--</u>	<u>154,000</u>	<u>1,163,000</u>
	1,616,308	692,708	184,803	2,124,213
Less Current Portion	(180,732)	(192,063)	(184,803)	(187,992)
Long-Term Debt, Net	1,435,576	500,645	--	1,936,221
Net Pension Liability	<u>177,765</u>	<u>--</u>	<u>5,164</u>	<u>172,601</u>
Total Non-Current Liabilities	<u>\$ 1,613,341</u>	<u>\$ 500,645</u>	<u>\$ 5,164</u>	<u>\$ 2,108,822</u>
	Balance 2018	Additions	Reductions	Balance 2019
Due to Electric Department 2018 Revenue Capital Loan Notes	\$ 325,057	\$ --	\$ 25,749	\$ 299,308
	<u>1,474,000</u>	<u>--</u>	<u>157,000</u>	<u>1,317,000</u>
	1,799,057	--	182,749	1,616,308
Less Current Portion	(182,749)	(180,732)	(182,749)	(180,732)
Long-Term Debt, Net	1,616,308	(180,732)	--	1,435,576
Net Pension Liability	<u>185,388</u>	<u>--</u>	<u>7,623</u>	<u>177,765</u>
Total Non-Current Liabilities	<u>\$ 1,801,696</u>	<u>\$(180,732)</u>	<u>\$ 7,623</u>	<u>\$ 1,613,341</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE L - TELECOMMUNICATIONS DEPARTMENT NON-CURRENT LIABILITIES -
Continued

Series 2018 Telecommunications Revenue Capital Loan Notes

The Series 2018 Telecommunications Revenue Capital Loan Notes were issued to refinance the Series 2012 Communications Revenue Capital Loan Notes. The Series 2018 Capital Loan Notes constitute a lien on the net income of the Telecommunications Department. They are not general obligations of the City of Harlan. The notes mature in amounts ranging from \$151,000 to \$185,000. Interest rates range from 2.0% to 4.0%.

Due to Electric Department

The interest bearing note payable to the Electric Department resulted when the Electric Department paid off the Telecommunications Department Capital Loan Notes in 2014 and advanced funds in 2020. The Board set the interest rate on the Note to 3.25%.

The annual debt service on the notes is expected to require greater than 100% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$238,400 and \$161,700, respectively. The difference is being funded through existing reserves of the Utilities.

Principal and interest payments required on Telecommunications Department long-term debt during each of the five years ending June 30, 2021 through 2024 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 187,992	\$ 73,491	\$ 261,483
2022	188,078	67,747	255,825
2023	198,302	61,239	259,541
2024	205,565	54,375	259,940
2025	211,870	47,260	259,130
2026-2030	588,487	130,284	718,771
2031-2035	265,216	68,636	333,852
2036-2040	278,703	21,666	300,369
	<u>\$ 2,124,213</u>	<u>\$ 524,698</u>	<u>\$ 2,648,911</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE M - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Utilities, except for those covered by another retirement system. Employees of the Utilities are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE M - PENSION PLAN - Continued

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2020 and 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Utilities contributed 9.44% of covered payroll for a total rate of 15.73%.

The Utilities' contributions to IPERS for the years ended June 30, 2020 and 2019 were \$174,339 and \$178,449, respectively.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2020 and 2019, the Utilities reported a liability of \$1,438,347 and \$1,481,377, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, respectively and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Utilities' proportion of the net pension liability was based on the Utilities' share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the Utilities' proportion was .024839%, which was an increase of .001430% from its proportion measured as of June 30, 2018.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE M - PENSION PLAN - Continued

For the years ended June 30, 2020 and 2019, the Utilities recognized pension expense of \$254,732 and \$173,183, respectively. The Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020					
	Electric		Gas		Water	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,316	\$ 17,066	\$ 1,076	\$ 13,963	\$ 1,116	\$ 14,480
Changes of assumptions	50,842	--	41,598	--	43,139	--
Net difference between projected and actual earnings on IPERS investments	--	53,488	--	43,763	--	45,384
Changes in proportion and differences between Utilities contributions and proportionate share of contributions	23,789	18,772	19,464	15,359	20,185	15,928
Utilities contributions subsequent to the measurement date	<u>57,533</u>	<u>--</u>	<u>47,072</u>	<u>--</u>	<u>48,815</u>	<u>--</u>
	<u>\$ 133,480</u>	<u>\$ 89,326</u>	<u>\$ 109,210</u>	<u>\$ 73,085</u>	<u>\$ 113,255</u>	<u>\$ 75,792</u>

	2020			
	Telecommunications		Total All Utilities	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 478	\$ 6,206	\$ 3,986	\$ 51,715
Changes of assumptions	18,488	--	154,067	--
Net difference between projected and actual earnings on IPERS investments	--	19,450	--	162,085
Changes in proportion and differences between Utilities contributions and proportionate share of contributions	8,651	6,826	72,089	56,885
Utilities contributions subsequent to the measurement date	<u>20,921</u>	<u>--</u>	<u>174,341</u>	<u>--</u>
	<u>\$ 48,538</u>	<u>\$ 32,482</u>	<u>\$ 404,483</u>	<u>\$ 270,685</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE M - PENSION PLAN - Continued

	2019					
	Electric		Gas		Water	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,680	\$ 11,049	\$ 2,193	\$ 9,040	\$ 2,274	\$ 9,375
Changes of assumptions	69,738	--	57,059	--	59,172	--
Net difference between projected and actual earnings on IPERS investments	--	13,432	--	10,990	--	11,397
Changes in proportion and differences between Utilities contributions and proportionate share of contributions	7,680	26,980	6,283	22,075	6,516	22,892
Utilities contributions subsequent to the measurement date	<u>58,888</u>	<u>--</u>	<u>48,181</u>	<u>--</u>	<u>49,966</u>	<u>--</u>
	<u>\$ 138,986</u>	<u>\$ 51,461</u>	<u>\$ 113,716</u>	<u>\$ 42,105</u>	<u>\$ 117,928</u>	<u>\$ 43,664</u>

	2019			
	Telecommunications		Total All Utilities	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 975	\$ 4,018	\$ 8,122	\$ 33,482
Changes of assumptions	25,359	--	211,328	--
Net difference between projected and actual earnings on IPERS investments	--	4,884	--	40,703
Changes in proportion and differences between Utilities contributions and proportionate share of contributions	2,793	9,811	23,272	81,758
Utilities contributions subsequent to the measurement date	<u>21,414</u>	<u>--</u>	<u>178,449</u>	<u>--</u>
	<u>\$ 50,541</u>	<u>\$ 18,713</u>	<u>\$ 421,171</u>	<u>\$ 155,943</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE M - PENSION PLAN - Continued

Deferred outflows of resources related to pensions of \$174,341 and \$178,449 represent the amount the Utilities contributed subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ending June 30, 2021 and June 30, 2020, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Electric	Gas	Water	Telecommunications	2020 Total
2021	9,684	7,924	8,217	3,522	29,347
2022	(14,189)	(11,609)	(12,039)	(5,160)	(42,997)
2023	(5,950)	(4,868)	(5,049)	(2,164)	(18,031)
2024	(4,102)	(3,357)	(3,481)	(1,491)	(12,431)
2025	1,178	963	1,000	428	3,569
	<u>\$(13,379)</u>	<u>\$(10,947)</u>	<u>\$(11,352)</u>	<u>\$(4,865)</u>	<u>\$(40,543)</u>

Year Ended June 30,	Electric	Gas	Water	Telecommunications	2019 Total
2020	\$ 28,615	\$ 23,412	\$ 24,279	\$ 10,406	\$ 86,712
2021	12,584	10,296	10,677	4,576	38,133
2022	(10,184)	(8,333)	(8,641)	(3,704)	(30,862)
2023	(2,128)	(1,741)	(1,805)	(773)	(6,447)
2024	(250)	(204)	(212)	(91)	(757)
	<u>\$ 28,637</u>	<u>\$ 23,430</u>	<u>\$ 24,298</u>	<u>\$ 10,414</u>	<u>\$ 86,779</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

Rate of Inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increases (effective June 30, 2017)	3.25% to 16.25%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE M - PENSION PLAN - Continued

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Utilities will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utilities' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Utilities' proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Utilities' proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Electric	\$ 842,834	\$ 474,654	\$ 165,830
Gas	689,591	388,354	135,679
Water	715,131	402,738	140,705
Telecommunications	<u>306,485</u>	<u>172,601</u>	<u>60,302</u>
Utilities' proportionate share of the net pension liability - June 30, 2020	<u>\$ 2,554,041</u>	<u>\$ 1,438,347</u>	<u>\$ 502,516</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE M - PENSION PLAN - Continued

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Electric	\$ 829,684	\$ 488,854	\$ 202,949
Gas	678,833	399,972	166,049
Water	703,975	414,786	172,199
Telecommunications	<u>301,703</u>	<u>177,765</u>	<u>73,800</u>
Utilities' proportionate share of the net pension liability - June 30, 2019	<u>\$ 2,514,195</u>	<u>\$ 1,481,377</u>	<u>\$ 614,997</u>

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS - At June 30, 2020 and 2019, the Utilities reported payables to IPERS of \$13,629 and \$15,614, respectively, for legally required employer contributions and \$9,081 and \$10,404, respectively, for legally required employee contributions withheld from employee wages which had not yet remitted to IPERS.

NOTE N - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: The Utilities operate a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The Utilities currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2020, the Utilities contributed \$402,050 and plan members eligible for benefits contributed \$33,951 to the plan. At June 30, 2020, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits: Individuals who are employed by the Utilities and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	0
Active employees	<u>24</u>
Total	<u>24</u>

Net OPEB Obligation: Management of the Utilities consider any OPEB obligation, which may exist, to be immaterial. No liability has been recorded.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2020 and 2019

NOTE O - COMMITMENTS AND CONTINGENCIES

Power Supply

The Electric Utility participates with several other utility companies in the operation of a power plant located in Louisa and Muscatine Counties in Iowa to supply power. The project represents an ongoing commitment to provide operating and construction funds as they are needed to maintain and update the facility. The share applicable to Harlan is approximately 0.8% of the total costs.

Water Department Construction in Progress

The construction in progress is for engineering a water treatment development project in and around Harlan. The Utilities has spent \$101,684 on this project. This project has an estimated total cost to complete of approximately \$360,000. Funds for the costs will be provided through existing and internally generated funds.

Risk Management

The Utilities are exposed to common business risks of loss. These risks are covered to the extent practical by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Environmental Regulations

The Utilities are subject to various federal and state environmental regulations. These regulations are continuously revised and updated, resulting in ongoing compliance requirements. Management has determined that the facility is currently in compliance with the applicable regulations. The Utilities anticipate that any future cost incurred relating to environmental regulations will be recovered through rates charged to customers.

NOTE P - SUBSEQUENT EVENTS

Subsequent Events

The Utilities has evaluated all subsequent events through September 15, 2020, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

HARLAN MUNICIPAL UTILITIES
Budgetary Comparison Schedule
Year Ended June 30, 2020

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a comparison of reported amounts to the cash basis budget for the year ended June 30, 2020.

	Total Proprietary Funds-Actual	Budget Adjustments	Budget Basis	Final Budget Amounts	Variance Favorable (Unfavorable)
Operating Revenues	\$ 14,282,640	\$ --	\$ 14,282,640	\$ 14,811,348	\$(528,708)
Operating Expenses:					
Plant operation	6,192,562	--	6,192,562	7,108,302	915,740
Distribution operation	1,281,984	--	1,281,984	1,455,308	173,324
Transmission operation	320,948	--	320,948	299,180	(21,768)
Administrative and general	948,426	--	948,426	1,703,926	755,500
Consumer services	12,102	--	12,102	41,275	29,173
Marketing and relations	174,091	--	174,091	213,349	39,258
Employee benefits	1,038,819	--	1,038,819	--	(1,038,819)
Amortization and depreciation	1,804,290	(1,804,290)	--	--	--
Total operating expenses	<u>11,773,222</u>	<u>(1,804,290)</u>	<u>9,968,932</u>	<u>10,821,340</u>	<u>852,408</u>
Operating Income	2,509,418	(1,804,290)	4,313,708	3,990,008	323,700
Other Revenues (Expenses), Net	<u>(364,210)</u>	<u>364,210</u>	<u>--</u>	<u>--</u>	<u>--</u>
Change in Net Position	2,145,208	\$(1,440,080)	\$ 4,313,708	\$ 3,990,008	\$ 323,700
Total Net Position, Beginning	<u>41,148,598</u>				
Total Net Position, Ending	<u>\$ 43,293,806</u>				

See accompanying independent auditor's report.

HARLAN MUNICIPAL UTILITIES
Notes to Required Supplementary Information - Budgetary Reporting
Year Ended June 30, 2020

The Harlan Municipal Utilities (Utilities) prepares a budget on the cash basis of accounting for all funds, except sewer and landfill fees collected for and remitted to the City, and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes the Utilities, on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Utilities disbursements are budgeted in the business type activities function. During the year, there were no budget amendments.

During the year ended June 30, 2020, disbursements did not exceed the amounts budgeted.

See accompanying independent auditor's report.

HARLAN MUNICIPAL UTILITIES
Schedule of the Utilities' Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Six Years

Required Supplementary Information

	<u>2020</u>	<u>2019</u>
Utilities' proportion of the net pension liability	0.024839%	0.023409%
Utilities' proportionate share of the net pension liability	\$ 1,438,000	\$ 1,481,000
Utilities' covered payroll	\$ 1,890,000	\$ 1,759,000
Utilities' proportionate share of the net pension liability as a percentage of its covered payroll	76.08%	84.20%
IPERS' net position as a percentage of the total pension liability	85.45%	83.62%

In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year-end. Amounts reported are rounded.

See accompanying independent auditor's report.

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
0.023192%	0.025655%	0.025010%	0.025386%
\$ 1,545,000	\$ 1,615,000	\$ 1,235,000	\$ 1,007,000
\$ 1,731,000	\$ 1,841,000	\$ 1,713,000	\$ 1,661,000
89.25%	87.72%	72.10%	60.63%
82.21%	81.82%	85.19%	87.61%

HARLAN MUNICIPAL UTILITIES
Schedule of Utilities Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years

Required Supplementary Information

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily required contribution	\$ 174,000	\$ 178,000	\$ 157,000	\$ 155,000
Contributions in relation to the statutorily required contribution	<u>(174,000)</u>	<u>(178,000)</u>	<u>(157,000)</u>	<u>(155,000)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Utilities' covered payroll	\$ 1,847,000	\$ 1,890,000	\$ 1,759,000	\$ 1,731,000
Contributions as a percentage of covered payroll	9.44%	9.44%	8.93%	8.95%

Note - Amounts are rounded.

See accompanying independent auditor's report.

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 164,000	\$ 153,000	\$ 148,000	\$ 140,000	\$ 125,000	\$ 106,000
<u>(164,000)</u>	<u>(153,000)</u>	<u>(148,000)</u>	<u>(140,000)</u>	<u>(125,000)</u>	<u>(106,000)</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ 1,841,000	\$ 1,713,000	\$ 1,661,000	\$ 1,680,000	\$ 1,546,000	\$ 1,525,000
8.91%	8.93%	8.91%	8.33%	8.09%	6.95%

HARLAN MUNICIPAL UTILITIES
Notes to Required Supplementary Information - Pension Liability
Year Ended June 30, 2020

Changes of benefit terms:

There are no significant changes in benefit terms from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

* * *

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

HARLAN MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Operating Expenses
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Plant Operation:		
Cost of power and line fees	\$ 1,588,124	\$ 1,946,068
Cost of other sales	415,829	575,312
Salaries and wages	10,058	51,500
Repairs and maintenance	14,270	2,365
Utilities	67,996	64,984
Insurance	42,253	46,279
Property taxes	117,393	97,559
Other	77,364	78,528
Total plant operation	<u>2,333,287</u>	<u>2,862,595</u>
Distribution Operation:		
Salaries and wages	275,021	261,672
Engineering	102,312	134,112
Repairs and maintenance	79,387	92,790
Other	176,416	185,760
Total distribution operation	<u>633,136</u>	<u>674,334</u>
Transmission Operation:		
Salaries and wages	3,018	6,209
Outside contracts	317,930	296,710
Total transmission operation	<u>320,948</u>	<u>302,919</u>
Administration and General:		
Salaries and wages	180,850	172,616
Office supplies	47,315	41,346
Education and travel	2,879	7,794
Professional	29,969	35,149
Other	18,360	38,122
Total administrative and general	<u>279,373</u>	<u>295,027</u>
Consumer Services:		
Salaries and wages	6,238	9,852
Bad debts	(1,113)	--
Other	335	946
Total consumer services	<u>5,460</u>	<u>10,798</u>
Marketing and Stakeholder Relations:		
Salaries and wages	15,003	14,922
Advertising	7,272	4,885
Other	9,813	13,252
Total marketing and stakeholder relations	<u>32,088</u>	<u>33,059</u>

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HARLAN MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Operating Expenses - Continued
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Employee Benefits:		
Payroll taxes	\$ 100,384	\$ 99,818
Health insurance	159,502	144,517
Compensated absences	85,534	77,174
Pension expense	<u>29,172</u>	<u>2,504</u>
Total employee benefits	374,592	324,013
Depreciation and Amortization:		
Depreciation	<u>1,139,262</u>	<u>1,119,541</u>
Total operating expense	<u>\$ 5,118,146</u>	<u>\$ 5,622,286</u>

See accompanying independent auditor's report.

HARLAN MUNICIPAL UTILITIES
GAS DEPARTMENT
Operating Expenses
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Plant Operation:		
Cost of power and line fees	\$ 1,684,061	\$ 1,959,914
Salaries and wages	12,424	19,400
Utilities	27,594	28,362
Insurance	29,969	36,623
Other	50,951	35,032
Total plant operation	<u>1,804,999</u>	<u>2,079,331</u>
Distribution Operation:		
Salaries and wages	126,270	119,366
Repairs and maintenance	17,295	11,861
Other	69,749	81,414
Total distribution operation	<u>213,314</u>	<u>212,641</u>
Administration and General:		
Salaries and wages	120,742	114,667
Office supplies	10,150	11,524
Education and travel	2,332	7,312
Professional	25,405	26,728
Other	44,999	46,499
Total administrative and general	<u>203,628</u>	<u>206,730</u>
Consumer Services:		
Salaries and wages	--	850
Bad debts	5,355	5,707
Total consumer services	<u>5,355</u>	<u>6,557</u>
Marketing and Stakeholder Relations:		
Salaries and wages	11,544	11,753
Advertising	2,364	5,089
Other	6,311	10,806
Total marketing and stakeholder relations	<u>20,219</u>	<u>27,648</u>

(continued next page)

HARLAN MUNICIPAL UTILITIES
GAS DEPARTMENT
Operating Expenses - Continued
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Employee Benefits:		
Payroll taxes	\$ 51,366	\$ 49,405
Health insurance	62,862	62,060
Compensated absences	34,558	32,833
Pension expense	<u>23,868</u>	<u>2,050</u>
Total employee benefits	172,654	146,348
Depreciation and Amortization:		
Depreciation	<u>71,093</u>	<u>70,719</u>
Total operating expense	<u>\$ 2,491,262</u>	<u>\$ 2,749,974</u>

See accompanying independent auditor's report.

HARLAN MUNICIPAL UTILITIES
WATER DEPARTMENT
Operating Expenses
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Plant Operation:		
Cost of power and line fees	\$ 291,091	\$ 290,180
Salaries and wages	168,722	176,124
Utilities	209,273	210,373
Insurance	31,079	37,979
Other	<u>46,431</u>	<u>42,370</u>
Total plant operation	746,596	757,026
Distribution Operation:		
Salaries and wages	135,625	131,529
Repairs and maintenance	8,231	18,012
Other	<u>78,713</u>	<u>92,761</u>
Total distribution operation	222,569	242,302
Administration and General:		
Salaries and wages	122,485	115,986
Office supplies	10,784	12,746
Education and travel	2,242	6,141
Professional	53,825	48,341
Other	<u>44,372</u>	<u>44,143</u>
Total administrative and general	233,708	227,357
Consumer Services:		
Salaries and wages	47	651
Bad debts	<u>1,240</u>	<u>1,516</u>
Total consumer services	1,287	2,167
Marketing and Stakeholder Relations:		
Salaries and wages	13,025	13,086
Advertising	3,579	5,980
Other	<u>7,241</u>	<u>9,248</u>
Total marketing and stakeholder relations	23,845	28,314

(continued next page)

HARLAN MUNICIPAL UTILITIES
WATER DEPARTMENT
Operating Expenses - Continued
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Employee Benefits:		
Payroll taxes	\$ 85,099	\$ 81,909
Health insurance	105,199	103,778
Compensated absences	70,343	64,490
Pension expense	<u>24,753</u>	<u>2,125</u>
Total employee benefits	285,394	252,302
Depreciation and Amortization:		
Amortization	4,338	4,593
Depreciation	<u>387,244</u>	<u>376,159</u>
Total depreciation and amortization	<u>391,582</u>	<u>380,752</u>
Total operating expense	<u>\$ 1,904,981</u>	<u>\$ 1,890,220</u>

See accompanying independent auditor's report.

HARLAN MUNICIPAL UTILITIES
TELECOMMUNICATIONS DEPARTMENT
Operating Expenses
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Plant Operation:		
Cost of power and line fees	\$ 1,121,660	\$ 1,165,194
Salaries and wages	41,908	42,213
Repairs and maintenance	6,285	23,781
Utilities	16,441	17,697
Insurance	13,316	16,708
Other	108,070	101,309
Total plant operation	<u>1,307,680</u>	<u>1,366,902</u>
Distribution Operation:		
Salaries and wages	85,778	100,764
Repairs and maintenance	29,351	27,322
Other	97,836	101,483
Total distribution operation	<u>212,965</u>	<u>229,569</u>
Administration and General:		
Salaries and wages	146,427	138,888
Office supplies	2,909	5,137
Education and travel	2,045	8,414
Professional	16,691	15,466
Other	63,645	60,543
Total administrative and general	<u>231,717</u>	<u>228,448</u>
Consumer Services:		
Salaries and wages	--	645
Bad debts (recoveries)	--	(21)
Total consumer services	<u>--</u>	<u>624</u>
Marketing and Stakeholder Relations:		
Salaries and wages	75,429	74,928
Advertising	16,614	19,359
Other	5,896	6,342
Total marketing and stakeholder relations	<u>97,939</u>	<u>100,629</u>

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HARLAN MUNICIPAL UTILITIES
TELECOMMUNICATIONS DEPARTMENT
Operating Expenses - Continued
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Employee Benefits:		
Payroll taxes	\$ 65,289	\$ 66,551
Health insurance	86,603	85,559
Compensated absences	43,679	42,078
Pension expense	<u>10,608</u>	<u>909</u>
Total employee benefits	206,179	195,097
Depreciation and Amortization:		
Depreciation	<u>202,353</u>	<u>195,727</u>
Total operating expense	<u>\$ 2,258,833</u>	<u>\$ 2,316,996</u>

See accompanying independent auditor's report.

HARLAN MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Comparative Statements of Income
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Operating Revenue:		
Sale of electricity	\$ 6,059,352	\$ 6,247,087
Other operating revenue	<u>1,162,844</u>	<u>1,182,108</u>
Total operating revenue	<u>7,222,196</u>	<u>7,429,195</u>
Operating Expenses (Not Including Depreciation)	<u>3,978,884</u>	<u>4,502,745</u>
Operating Income Before Depreciation	3,243,312	2,926,450
Provision for Depreciation	<u>1,139,262</u>	<u>1,119,541</u>
Income From Operations	2,104,050	1,806,909
Non-Operating Revenues (Expenses), Net	<u>(122,035)</u>	<u>(143,093)</u>
Net Income	<u>\$ 1,982,015</u>	<u>\$ 1,663,816</u>
Net Income as a Percent of Total Operating Revenue	<u>27.44%</u>	<u>22.40%</u>

See accompanying independent auditor's report.

<u>2018</u>	<u>2017</u>	<u>2016</u>
\$ 6,118,351	\$ 6,074,740	\$ 6,051,132
<u>1,359,115</u>	<u>1,912,344</u>	<u>1,163,781</u>
7,477,466	7,987,084	7,214,913
<u>4,687,195</u>	<u>4,672,683</u>	<u>4,502,237</u>
2,790,271	3,314,401	2,712,676
<u>1,068,745</u>	<u>1,141,188</u>	<u>1,138,971</u>
1,721,526	2,173,213	1,573,705
<u>(248,679)</u>	<u>(380,505)</u>	<u>(451,373)</u>
<u>\$ 1,472,847</u>	<u>\$ 1,792,708</u>	<u>\$ 1,122,332</u>
<u>19.70%</u>	<u>22.45%</u>	<u>15.56%</u>

HARLAN MUNICIPAL UTILITIES
GAS DEPARTMENT
Comparative Statements of Income
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Operating Revenue:		
Sale of gas	\$ 2,654,117	\$ 2,963,647
Other operating revenue	<u>3,746</u>	<u>4,898</u>
Total operating revenue	<u>2,657,863</u>	<u>2,968,545</u>
Operating Expenses (Not Including Depreciation)	<u>2,420,169</u>	<u>2,679,255</u>
Operating Income Before Depreciation	237,694	289,290
Provision for Depreciation	<u>71,093</u>	<u>70,719</u>
Income From Operations	166,601	218,571
Non-Operating Revenues (Expenses), Net	<u>(24,870)</u>	<u>(42,640)</u>
Net Income (Loss)	<u>\$ 141,731</u>	<u>\$ 175,931</u>
Net Income (Loss) as a Percent of Total Operating Revenue	<u>5.33%</u>	<u>5.93%</u>

See accompanying independent auditor's report.

<u>2018</u>	<u>2017</u>	<u>2016</u>
\$ 2,807,633	\$ 2,583,384	\$ 2,630,466
<u>5,334</u>	<u>3,721</u>	<u>2,271</u>
2,812,967	2,587,105	2,632,737
<u>2,520,174</u>	<u>2,515,306</u>	<u>2,375,954</u>
292,793	71,799	256,783
<u>63,774</u>	<u>59,734</u>	<u>66,327</u>
229,019	12,065	190,456
<u>(45,312)</u>	<u>(44,990)</u>	<u>(35,446)</u>
<u>\$ 183,707</u>	<u>\$(32,925)</u>	<u>\$ 155,010</u>
<u>6.53%</u>	<u>(1.27%)</u>	<u>5.89%</u>

HARLAN MUNICIPAL UTILITIES
WATER DEPARTMENT
Comparative Statements of Income
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Operating Revenue:		
Sale of water	\$ 2,176,442	\$ 2,082,659
Other operating revenue	<u>11,638</u>	<u>--</u>
Total operating revenue	<u>2,188,080</u>	<u>2,082,659</u>
Operating Expenses (Not Including Depreciation)	<u>1,513,399</u>	<u>1,509,468</u>
Operating Income Before Depreciation	674,681	573,191
Provision for Depreciation	<u>391,582</u>	<u>380,752</u>
Income From Operations	283,099	192,439
Non-Operating Revenues (Expenses), Net	<u>(190,302)</u>	<u>(200,316)</u>
Net Income (Loss)	<u>\$ 92,797</u>	<u>\$ (7,877)</u>
Net Income (Loss) as a Percent of Total Operating Revenue	<u>4.24%</u>	<u>(0.38%)</u>

See accompanying independent auditor's report.

<u>2018</u>	<u>2017</u>	<u>2016</u>
\$ 2,050,541	\$ 1,959,824	\$ 1,997,541
<u>72,374</u>	<u>54,080</u>	<u>60,149</u>
2,122,915	2,013,904	2,057,690
<u>1,520,750</u>	<u>1,406,893</u>	<u>1,299,818</u>
602,165	607,011	757,872
<u>353,700</u>	<u>338,104</u>	<u>337,960</u>
248,465	268,907	419,912
<u>(210,942)</u>	<u>(224,655)</u>	<u>(231,326)</u>
<u>\$ 37,523</u>	<u>\$ 44,252</u>	<u>\$ 188,586</u>
<u>1.76%</u>	<u>2.20%</u>	<u>9.16%</u>

HARLAN MUNICIPAL UTILITIES
TELECOMMUNICATIONS DEPARTMENT
Comparative Statements of Income
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Operating Revenue:		
Sale of telecommunications	\$ 2,181,677	\$ 2,200,858
Other operating revenue	<u>32,824</u>	<u>29,017</u>
Total operating revenue	<u>2,214,501</u>	<u>2,229,875</u>
Operating Expenses (Not Including Depreciation)	<u>2,056,480</u>	<u>2,121,269</u>
Operating Income Before Depreciation	158,021	108,606
Provision for Depreciation	<u>202,353</u>	<u>195,727</u>
Income (Loss) From Operations	(44,332)	(87,121)
Non-Operating Revenues (Expenses), Net	<u>(27,003)</u>	<u>(35,542)</u>
Net Income (Loss)	<u><u>\$ (71,335)</u></u>	<u><u>\$ (122,663)</u></u>
Net Income (Loss) as a Percent of Total Operating Revenue	<u><u>(3.22%)</u></u>	<u><u>(5.50%)</u></u>

See accompanying independent auditor's report.

<u>2018</u>	<u>2017</u>	<u>2016</u>
\$ 2,165,212	\$ 2,193,217	\$ 2,084,767
<u>50,747</u>	<u>47,363</u>	<u>33,111</u>
2,215,959	2,240,580	2,117,878
<u>1,999,164</u>	<u>1,962,476</u>	<u>1,944,797</u>
216,795	278,104	173,081
<u>192,249</u>	<u>183,153</u>	<u>187,899</u>
24,546	94,951	(14,818)
<u>(47,178)</u>	<u>(42,696)</u>	<u>(48,734)</u>
<u>\$(22,632)</u>	<u>\$ 52,255</u>	<u>\$(63,552)</u>
<u>(1.02%)</u>	<u>2.33%</u>	<u>(3.00%)</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Harlan Municipal Utilities
Harlan, Iowa

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of business-type activities and each major fund of Harlan Municipal Utilities as of and for the years ended June 30, 2020 and 2019, and the related notes to financial statements which collectively comprise the Utilities basic financial statements, and have issued our report thereon dated September 15, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harlan Municipal Utilities' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harlan Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Harlan Municipal Utilities' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies: 20-I-A.

To the Board of Trustees
Harlan Municipal Utilities

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harlan Municipal Utilities' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Harlan Municipal Utilities' Responses to Findings

Harlan Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Harlan Municipal Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bruehl, Ben, signed W. P. C.

Atlantic, Iowa
September 15, 2020

HARLAN MUNICIPAL UTILITIES
Schedule of Findings and Responses
Year ended June 30, 2020

PART I - INTERNAL CONTROL DEFICIENCIES

20-I-A Segregation of Duties:

Criteria: Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Utilities' financial statements.

Condition: A limited number of people have the primary responsibility for most of the accounting and financial reporting duties.

Cause: The Utilities has a limited number of employees which does not allow procedures to be established to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect: Inadequate segregation of duties could adversely affect the Utilities' ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation: We recognize that it may not be economically feasible for the Utilities to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Utilities to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

20-II-A Certified Budget: Disbursements during the year ended June 30, 2020 did not exceed amounts budgeted in this business type activity function.

HARLAN MUNICIPAL UTILITIES
Schedule of Findings and Responses - Continued
Year ended June 30, 2020

PART II - REQUIRED STATUTORY REPORTING (Continued)

20-II-B Questionable Expenditure: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expenditure was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Harlan Golf & Country Club	Employee Recognition Dinner	\$ 1,545

According to the opinion, it is possible for certain expenses to meet the test of serving a public purpose under certain circumstances, although such expenses will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation: We recommend that the Board continue to document the public purpose of the expenditure for employee recognition dinners before authorization is given.

Response: The recognition dinner expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

20-II-C Travel Expense: No expenditures of Utilities' money for travel expenses of spouses of Utilities' officials and/or employees were noted.

20-II-D Business Transactions: No business transactions between the Utilities and Utilities' officials and/or employees were noted.

20-II-E Restricted Donor Activity: No transactions were noted between the Utilities, Utilities officials, Utilities employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

20-II-F Bond Coverage: Surety bond coverage of the Utilities' officials and employees appears to be in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

20-II-G Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

20-II-H Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities' investment policy.

20-II-I Revenue Bonds and Notes: No violations of revenue bond or revenue note resolution requirements were noted.

HARLAN MUNICIPAL UTILITIES
Schedule of Findings and Responses - Continued
Year ended June 30, 2020

PART II - REQUIRED STATUTORY REPORTING (Continued)

20-II-J Telecommunications Services: No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

20-II-K Economic Development: During the year ended June 30, 2020, the Utilities paid \$35,000 to the Shelby County Chamber of Commerce & Industry. The Utilities Board has documented the public benefits received from this expenditure, however, it is disclosed here for public information.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses the specific criteria to be considered in documenting public purpose.

Recommendation: The Board should continue to evaluate and document the public purpose served by these expenditures before authorizing further payments.

Response: We will continue to evaluate and document the public purpose in the future.

Conclusion: Response accepted.

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